

Auditing Procedures Report V1.04

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Issued under Public Act 2 of 1968, as amended.

Unit Name	Kalamazoo Lake Sewer & Water Authority	County	ALLEGAN	Type	AUTHORITY	MuniCode	037512
Opinion Date-Use Calendar	7/11/08	Audit Submitted-Use Calendar	7/18/08	Fiscal Year-Use Drop List	2008		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="text" value="1,146,376"/>
General Fund Expenditure:	<input type="text" value="1,224,427"/>
Major Fund Deficit Amount:	<input type="text"/>

General Fund Balance:	<input type="text" value="4,095,140"/>
Governmental Activities Long-Term Debt (see instructions):	<input type="text"/>

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Douglas	Last Name	Rotman	Ten Digit License Number	1101019033				
CPA Street Address	675 E. 16th Street, Suite 100	City	Holland	State	MI	Zip Code	49423	Telephone	6163928534
CPA Firm Name	Ferris, Busscher & Zwiers, P.C.	Unit's Street Address	6449 Old Allegan Road	City	Saugatuck	LU Zip	49453		

KALAMAZOO LAKE SEWER AND WATER AUTHORITY

COUNTY OF ALLEGAN, MICHIGAN

FINANCIAL STATEMENTS

FEBRUARY 29, 2008

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Kalamazoo Lake Sewer and Water Authority

Authority Board

Mark Bekken

Dan Urquhart

Robert Moore

Barry Johnson

Phillip Quade

Independent Auditors' Report

July 11, 2008

Members of the Board
Kalamazoo Lake Sewer and
Water Authority
Saugatuck, Michigan

We have audited the accompanying financial statements of Kalamazoo Lake Sewer and Water Authority, County of Allegan, Michigan as of and for the year ended February 29, 2008, as listed in the index. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kalamazoo Lake Sewer and Water Authority, County of Allegan, Michigan, as of February 29, 2008, and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Management has elected to omit the Management's Discussion and Analysis from the required supplementary information.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Kalamazoo Lake Sewer and Water Authority's basic financial statements. The supplementary schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Funding Progress – Employee Retirement System has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Ferris, Busscher & Zwiers P.C.

FERRIS, BUSSCHER & ZWIERS, P.C.
Certified Public Accountants
Holland, Michigan

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Basic Financial Statements

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF NET ASSETS
FEBRUARY 29, 2008**

Assets

Current assets:

Cash and equivalents	\$ 641,739
Accounts receivable	37,739
Prepaid expenses	<u>1,476</u>
Total current assets	680,954

Capital assets, net	<u>3,491,137</u>
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Total assets	4,172,091
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Liabilities

Current liabilities:

Accounts payable	28,201
Accrued liabilities:	
Wages	29,400
Retirement contribution	2,794
Due to agency funds	540
Current portion of long-term liabilities	<u>7,732</u>
Total current liabilities	68,667

Note payable	<u>8,284</u>
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Total liabilities	<u>76,951</u>
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Net Assets

Invested in capital assets, net of related debt	3,475,121
Unrestricted	<u>620,019</u>
Total net assets	<u>\$ 4,095,140</u>

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED FEBRUARY 29, 2008**

Operating Revenues	
Charges for services - sewer	\$ 478,493
Charges for services - water	597,339
Total operating revenues	<u>1,075,832</u>
Operating Expenses	
Sewer:	
Employment costs	211,786
Repairs and maintenance	55,408
Supplies and materials	44,835
Depreciation	280,586
Utilities and insurance	86,644
Purchased services	4,966
Administration	13,373
Total sewer operating costs	<u>697,598</u>
Water:	
Employment costs	279,464
Repairs and maintenance	66,815
Supplies and materials	40,284
Depreciation	24,625
Utilities and insurance	99,899
Purchased services	1,531
Administration	12,833
Total water operating expenses	<u>525,451</u>
Total operating expenses	<u>1,223,049</u>
Operating loss	(147,217)
Nonoperating revenues (expenses):	
Contributions from local unit	43,621
Interest income	26,923
Interest expense	(1,378)
Total nonoperating revenues (expenses)	<u>69,166</u>
Change in net assets	(78,051)
Net assets - March 1	<u>4,173,191</u>
Net assets - February 29	<u>\$ 4,095,140</u>

See notes to financial statements

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF CASH FLOWS
YEAR ENDED FEBRUARY 29, 2008**

Cash Flows from Operating Activities

Received from user charges	\$ 1,099,719
Payments to employees for services	(486,360)
Payments to suppliers for goods and services	(432,936)
Net cash provided by operating activities	<u>180,423</u>

Cash Flows from Capital and Related Financing Activities

Purchase of capital assets	(413,196)
Principal and interest paid on capital debt	(8,596)
Net cash used by capital and related financing activities	<u>(421,792)</u>

Cash Flows from Investing Activities

Contributions from local unit	43,621
Interest income	26,923
Net cash provided by investing activities	<u>70,544</u>

Net decrease in cash and equivalents	(170,825)
Cash and equivalents - March 1	<u>812,564</u>
Cash and equivalents - February 29	<u>\$ 641,739</u>

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities

Operating loss	\$ (147,217)
Adjustments to reconcile net operating loss to net cash provided by operating activities:	
Depreciation expense	305,211
Change in assets and liabilities:	
Receivables	23,887
Prepaid expenses	402
Accounts payable and accrued liabilities	(1,860)
Net cash provided by operating activities	<u>\$ 180,423</u>

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FEBRUARY 29, 2008**

	Agency Funds
Assets	
Cash and equivalents	\$ 259,070
Customer receivables	29,075
Due from other funds	<u>540</u>
Total assets	<u><u>\$ 288,685</u></u>
Liabilities	
Payables to other governments	<u><u>\$ 288,685</u></u>

See notes to financial statements

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008**

1. Summary of Significant Accounting Policies

Reporting Entity

The Kalamazoo Lake Sewer and Water Authority is a joint venture of the City of the Village of Douglas and the City of Saugatuck, created under the provisions of Act 233, Public Acts of Michigan, 1955, as amended. The Authority was formed to operate, maintain, administer, and manage the water and sewage disposal systems. The Authority grants credit to its residential, commercial and industrial customers located within the City of the Village of Douglas, the City of Saugatuck and Saugatuck Township.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Authority is accounted for in funds, each of which is considered to be a separate accounting entity. The major fund categories are Proprietary funds and Fiduciary funds.

Proprietary funds account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges.

Fiduciary funds account for assets held by the Authority in a trustee or agency capacity. Agency funds are custodial in nature and do not involve measurement of results of operations.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to proprietary funds of governmental units, and, accordingly, the accrual basis of accounting and economic resource measurement focus are followed. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance. The government has elected not to follow subsequent private-sector guidance.

Bank Deposits and Investments

For the purposes of the statement of cash flows, cash and equivalents are defined as demand deposits, savings accounts and investments in a short-term investment fund for local units of government.

Accounts Receivable

Accounts receivable are carried at their net realizable value. The Authority rarely has uncollectible accounts because of its ability to collect overdue balances with a property tax levy. Accordingly, the Authority has not recorded an allowance for doubtful accounts.

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008**

1. Summary of Significant Accounting Policies (Continued)

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future years and are recorded as prepaid expenses.

Capital Assets

Capital assets include property, plant and equipment. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings, plant and improvements	10-40
Lift stations	40
Mains and connections	40-50
Machinery and equipment	5-10
Office equipment and furnishings	3-10

Compensated Absences

All employees are granted paid time off in varying amounts depending on length of service. Employees may accumulate a maximum of 360 hours of paid time off. In the event of termination, an employee is reimbursed for any unused accumulated paid time off at 100% of their current base rate.

At the election of the employee, paid time off hours may be converted to their cashable sick leave account (CSLA). Hours accumulated in the CSLA are to be used for short term disability, care of an infirm parent, or any other medical emergencies. Employees may accumulate a maximum of 360 CSLA hours. In the event of termination, an employee is reimbursed for any unused accumulated CSLA hours at 50% of their current base rate.

The amounts attributable to proprietary funds are charged to expense and a corresponding liability in the applicable fund.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes the Authority to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008**

2. Deposits and Investments (Continued)

classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Authority Board has designated two banks for the deposit of Authority funds. The investment policy adopted by the Board is in accordance with Public Act 196 of 1997.

At year-end the Authority's deposits and investments were reported in the basic financial statements in the following categories:

	Business-type Activities	Fiduciary Funds	Total Primary Government
Cash and equivalents	<u>\$ 641,739</u>	<u>\$ 259,070</u>	<u>\$ 900,809</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificates of deposit) \$ 900,809

The bank balance of the Authority's deposits is \$925,027 of which \$156,113 is covered by federal depository insurance and \$768,914 is uninsured and uncollateralized.

3. Capital Assets

Capital asset activity for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Buildings, plant and improvements	\$3,507,297	\$ -	\$ -	\$ 3,507,297
Lift stations	1,321,422	106,352	-	1,427,774
Mains and connections	4,488,406	273,344	-	4,761,750
Machinery and equipment	499,886	33,500	40,768	492,618
Office equipment and furnishings	49,917	-	10,494	39,423
Subtotal	<u>9,866,928</u>	<u>413,196</u>	<u>51,262</u>	<u>10,228,862</u>
Accumulated depreciation for:				
Buildings, plant and improvements	2,196,511	95,361	-	2,291,872
Lift stations	858,302	50,131	-	908,433
Mains and connections	3,016,043	117,127	-	3,133,170
Machinery and equipment	373,116	40,535	40,768	372,883
Office equipment and furnishings	39,804	2,057	10,494	31,367
Subtotal	<u>6,483,776</u>	<u>305,211</u>	<u>51,262</u>	<u>6,737,725</u>
Total capital assets – net of depreciation	<u>\$3,383,152</u>	<u>\$ 107,985</u>	<u>\$ -</u>	<u>\$ 3,491,137</u>

Depreciation expense was \$305,211 for the year ended February 29, 2008.

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008**

4. Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
Agency Funds	<u>\$ 540</u>	Sewer and Water Enterprise Fund	<u>\$ 540</u>

5. Capital Lease

The Authority has entered into a lease agreement as lessee for financing the purchase of two pick-up trucks. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value is as follows:

Year ended February 29,

2009	\$ 8,596
2010	<u>8,595</u>
Total minimum lease payments	17,191
Amount representing interest	<u>(1,175)</u>
Present value	<u>\$ 16,016</u>

6. Long-term Debt

Contractual obligation activity can be summarized as follows:

	Interest Rate	Principal Matures	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Installment purchase agreement							
GMAC	6.90%	2/28/10	<u>\$ 23,234</u>	<u>\$ -</u>	<u>\$ (7,218)</u>	<u>\$ 16,016</u>	<u>\$ 7,732</u>

Annual requirements to maturity for the above obligations are as follows:

Year ended February 29,

	Principal	Interest
2009	\$ 7,732	\$ 864
2010	<u>8,284</u>	<u>311</u>
Total	<u>\$ 16,016</u>	<u>\$ 1,175</u>

7. Trust and Agency Funds

The Authority is collecting connection fees for the City of Saugatuck and the City of the Village of Douglas by agreement. These funds are held by the Authority until the local governments request the funds.

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008**

8. Defined Benefit Pension Plan

Plan Description

The Authority's defined benefit pension plan, which consists of participation in the Municipal Employees' Retirement System of Michigan, provides retirement, disability and death benefits to plan members and beneficiaries. The Municipal Employees' Retirement System of Michigan ("System") is an agent multiple-employer pension plan administered by the Retirement Board of the Municipal Employees' Retirement System of Michigan. The authority to establish and amend the benefit provisions of the plan rests with the System's Retirement Board; the provisions of the Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220; and the System's plan document. The Authority adopts its specific benefit provision. The System issues a publicly available financial report that includes financial statements and required supplemental information for the Municipal Employees' Retirement System of Michigan. That report may be obtained by writing to the Municipal Employees' Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling 1-800-767-6377.

Funding Policy

The Authority's plan members do not contribute to the System. The Authority is required to contribute at an actuarially determined rate. The required contribution for the period March 1, 2007 through February 29, 2008 was based on the annual actuarial valuation as of December 31, 2005. The net rate used was 10.79% of a projected annual covered payroll. The contribution requirements of plan members are selected by the Authority. The contribution requirements of the Authority are established and may be amended by the System's Retirement Board, yet the Authority selects its specific benefit provision.

Annual Pension Cost

For the year ended February 29, 2008, the Authority's annual pension cost of \$36,681 for MERS was equal to the Authority's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age normal cost method. The actuarial assumptions includes (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis which remains stable at 30 years.

The following is a schedule of annual pension cost and net pension obligation relating to the Authority's participation in the System:

Fiscal Year Ending	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
02/28/06	\$31,318	100%	\$0
02/28/07	34,566	100	0
02/29/08	36,681	100	0

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008**

9. Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and workman's compensation benefits provided to employees.

The Authority participates in the Michigan Municipal Workers' Compensation Fund. This fund consists of a group program of workers' compensation self insurance for Michigan Municipalities. The Authority pays premiums based on estimated payroll for the policy period and is subject to an audit of actual payroll paid during the policy period to determine if additional premiums are due or a refund is warranted.

The Authority purchases commercial insurance for general liability, property coverage and medical benefits.

Settled claims for insurance have not significantly exceeded the amount of coverage during the year ended February 29, 2008. During the year ended February 28, 2003, the Authority discontinued its liability insurance coverage for losses related to sewer back-ups. Management does not expect the additional exposure to result in material losses.

Supplementary Information

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
SCHEDULE OF FUNDING PROGRESS – EMPLOYEE RETIREMENT SYSTEM
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN**

Actuarial Valuation Rate – December 31	2006	2005	2004
Actuarial value of assets	\$ 694,192	\$ 629,783	\$ 581,271
Actuarial accrued liability	895,400	839,938	748,409
Unfunded AAL	(201,208)	(210,155)	(167,138)
Funded ratio	78%	75%	78%
Covered payroll	328,613	320,350	292,274
UAAL as a percentage of covered payroll	61%	66%	57%

July 11, 2008

To the Authority Board and Manager
of Kalamazoo Lake Sewer and
Water Authority

In planning and performing our audit of the financial statements of Kalamazoo Lake Sewer and Water Authority as of and for the year ended February 29, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

1. The entity does not have the capability to adjust the balances of the enterprise and agency activities to the full accrual basis of accounting.
2. The entity does not have the capability to prepare the basic financial statements, the notes to the basic financial statements, and the required supplementary information as required by generally accepted accounting principles.

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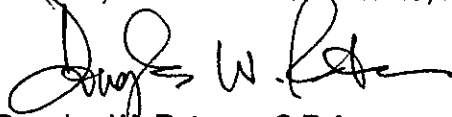
A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the following deficiencies constitute material weaknesses:

Items numbered 1 and 2 as listed above.

This communication is intended solely for the information and use of management, the Authority Board, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

FERRIS, BUSSCHER & ZWIERS, P.C.

A handwritten signature in black ink, appearing to read "Douglas W. Rotman". The signature is fluid and cursive, with a large initial "D" and a stylized "R".

Douglas W. Rotman, C.P.A.

DWR\kc